

Internal Revenue Service

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Department of the Treasury

Washington, DC 20224

Third Party Communication: None

Date of Communication: Not Applicable

Person To Contact:

, ID No.

Telephone Number:

Refer Reply To:

CC:CORP:2

PLR-127305-15

Date:

July 05, 2016

Legend

Corp =

Sub 1 =

Sub 2 =

Third Party =

Employees =

State A =

State B =

a =

b =

c =

d =

e =

f =

g =

h =

i =

i =

k =

l =

Type 1 =

Type 2 =

Type 3 =

Type 4 =

Date 1 =

Date 2 =

Dear :

This letter responds to your August 14, 2015 letter requesting a ruling on certain federal income tax consequences under the consolidated return regulations. The material information provided in that letter and in later correspondence is summarized below.

The rulings contained in this letter are based upon information submitted by the taxpayer and accompanied by a penalties of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Summary of Facts

Corp is a State A corporation, the stock of which is publicly traded. Corp is the common parent of an affiliated group of corporations that join in filing a consolidated income tax return (the "Corp Consolidated Group"). The Corp Consolidated Group includes Sub 1 and Sub 2, as explained below.

Sub 1 is a direct subsidiary of Corp. As of Date 1, Corp owned stock representing approximately a percent of the value and b percent of the voting power of the outstanding stock of Sub 1. The remaining stock of Sub 1 is publicly traded.

As of Date 1, Corp and Sub 1 owned approximately c and d percent of the outstanding shares of Sub 2, respectively. Corp owned Type 1 and Type 2 stock in Sub 2. Sub 1 only owned Type 2 stock in Sub 2. Third Party owned approximately e percent of the outstanding shares of Sub 2 consisting of Type 3 stock, and Employees owned approximately f percent of the outstanding shares of Sub 2, consisting of Type 4 stock (together Type 1, Type 2, Type 3, and Type 4, the "Sub 2 stock").

The Sub 2 stock is identical in all respects except that Type 1 and Type 2 are entitled to g votes per share and Type 3 and Type 4 are entitled to h votes per share. The Sub 2 stock votes together as a single class in connection with the election of directors and all other matters submitted to shareholder vote. Additionally, the Sub 2 stock participates equally in dividends and other corporate distributions, i.e. each share of Sub 2 stock receives dividends and other distributions equally on a per-share basis.

Type 2 and Type 3 stock have liquidation preferences that entitle their respective shareholders to receive their original investment upon liquidation. The liquidation preference of Type 3 stock is subordinate to Type 2 stock. Thus, payment is made on Type 3 stock only after Type 2 stock is fully paid upon liquidation. However, liquidation of Sub 2 requires an affirmative vote of i percent of the Type 2 and Type 3 shareholders voting together as a separate class. After payment is made on the Type 2 and Type 3 stock, Type 1 and Type 4 stock will receive the remaining assets of Sub 2 on a pro-rata basis. Type 2 and Type 3 shareholders could always receive a proportionate share of the Sub 2 assets along with the Type 1 and Type 4 shareholders because 1) Type 2 and Type 3 shareholders have the right to convert their stock into Type 4 and Type 1 stock, respectively, and 2) Type 2 and Type 3 shareholders must approve a plan of liquidation.

For purposes of complying with regulations related to deferred compensation under section 409A, Sub 2 hires an independent accounting firm to value its stock on a quarterly basis. The Sub 2 stock has never fallen below its original issue price and, as of Date 2, the value of a single share of Sub 2 is \$j, which is approximately k% over its original issue price of \$l.

Rulings

1. Sub 2's Type 2 and Type 3 stock constitute common stock under Treas. Reg. § 1.1502-32(d)(3).
2. Assuming that the value of Sub 2 (as reflected in the aggregate value of all its stock) remains above the combined amount of the Type 2 and Type 3 liquidation preferences, Corp may allocate any negative remaining adjustment (as defined in Treas. Reg. § 1.1502-32(c)(1)(iii)) equally among all shares of Sub 2 stock.

Caveats

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter. Specifically, the rulings in this letter are limited to Sub 2's capital structure as of Date 1. No opinion is expressed concerning the tax consequences of any subsequent change to Sub 2's capital structure.

Procedural Statements

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

A copy of this letter must be attached to any income tax return to which it is relevant. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

Sincerely,

Gerald B. Fleming
Senior Technician Reviewer, Branch 2
Office of Associate Chief Counsel (Corporate)